nLightened Thoughts

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Client Loyalty Depends on Employee Loyalty

“The customer comes first!” is a misguided approach to running a business. Whether you call them workers, employees, or associates, the people who work for you who need to take precedence over clients if you want to build a base of loyal clients.

Client retention has little to do with happy clients and everything to do with happy employees. If your employees are unhappy with the way the business is run and if they loathe coming to work, what kind of experience do you think they will provide for your clients?

When employees are happy, they treat clients better. Southwest Airlines, for example, has a reputation for treating its employees well. Perhaps that’s the reason why, years ago, when I underestimated the time it would take to drive from Tucson to Phoenix and arrived far too late at the airport, the Southwest employee I asked for help gave far more than expected. Even though I arrived at the airport when the plane was already boarding passengers, the Southwest employee managed to get me to the gate in time to be on board.

Sincerity or Spin?

Once you learn how to fake sincerity, you’ve got it made. Those words have been attributed to many people, some undoubtedly speaking ironically and others seriously.

Exemplary service must start at the top, from management that cares enough about employees so that the employees care about the clients they serve. Lots of things, good and bad, roll downhill. You can certainly think of numerous situations such as the one I described in Arizona. And no doubt you could provide examples of the reverse.

1

Put your employees first!

Loyal Employees = Loyal Clients

That was one of the take-home messages from a Direct Marketing Association program on customer loyalty.

Recently my long-time ophthalmologist moved his practice to a new location. Appointments that once took 60 minutes stretched to 3 hours and patients were given no information about the cause of the delays. My wife experienced the same problem. We are no longer patients there, which is too bad because we like the doctor.

Change is painful. Fortunately, I found a new ophthalmologist and the transition has been easy. But when someone you’ve been dealing with for many years is promoted, leaves the company, or retires, developing a relationship with the new person can be difficult.

The DMA program discussed several myths about client retention. Although the facts and figures are a few years old, the conditions and the trends seem to be much the same today.

There’s no problem retaining employees these days. Turnover is actually increasing, year over year.

Employers are trying to retain good workers. In a survey, nearly all said that they’re doing this. Further research that involved employees suggest than not even 50% of firms really do.

If employees are satisfied with their jobs, they will stay. One survey found that 10% of the responding employees will admit that they’re unsatisfied, but 25% also said that they plan to

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search for a new job within a year. Satisfaction is not loyalty.

Meaningful work isn't important. Employees who understand how their job affects the overall company are much more likely to stay. Lack of *meaningful* work is one of the top reasons cited when employees leave.

Money is the most important reason employees stay. Although money is important, it almost always ranks near the bottom of the list of considerations that are important to employees.

Trust and loyalty are not issues. The survey said that nearly all (99%) employees consider trust to be essential.

Employers are adopting new retention tactics. The survey revealed that more than half of the responding companies have never tried coaching, mentoring, or other proven methods.

Replacing employees isn't costly. This is one of the most destructive myths in the list because the cost of replacing a customer-facing employee can be 400% of the employee's annual salary when you take into account the soft costs that affect customer loyalty.

Turnover is mainly a problem for high-tech industries. Although high-tech companies seem to be affected more, turnover has become a major issue for all industries.

Employers are making special efforts to retain managers. The survey found that only about a quarter had any kind of manager retention strategy.

Why It's Important

When employee turnover is high, client turnover will also be high. Losing a lot of clients is not a good thing.

For one thing, the cost of obtaining replacement clients is almost always far more than the cost of retaining current clients. In addition, new clients have post-acquisition costs. You'll need to train them to adopt your way of doing business. There's also the fact that we live in a finite world: A company that churns through clients quickly will eventually run out of potential clients.

Defection studies conducted by the Direct Marketing Association suggest that 70% of the reasons stated by clients when they leave can be traced to employee turnover factors.

Employee replacement costs (recruitment, ramping up, training, mentoring, and monitoring) are 150% to 400% of the departed person's annual salary and those costs are higher when the employee being replaced is in a position that requires significant customer interaction.

And there are intangible costs. Information resides with your knowledge workers. As management consultant A. J. Stinnett likes to point out, *knowledge workers can leave on little more than a whim because they carry their tools with them in their heads.*

Client Considerations

All clients are not created equal, though, and some cost more to retain than they're worth. Do you have some of these on your books?

Michael Lowenstein, vice president and senior consultant, Customer Loyalty Management, at Harris Interactive says that your company's largest client is probably not your company's most profitable client, but that's usually OK because large clients cover your fixed costs.

They are probably also your neediest clients, the ones who require the most attention. What about small but needy clients – the ones who are constantly clamoring for attention but who contribute little or nothing to the bottom line?

Sometimes it's better to lose a client. Whether you should try to win back any lost client depends on the reason for the defection.

Maybe you fired the client because of late payments or because the client mistreated your employees (remember, they come first), or possibly the client demanded too much handholding. Whatever the reason, this was a client whose contribution to your company's bottom line was insufficient considering that client's costs. Make no effort to win back such a client.

Possibly you pushed the client away with poor service. UPS lost a lot of customers to FedEx and the US Postal Service during a strike several years ago because it was effectively out of business for a few days. Starting the day the strike ended, UPS worked hard to win the customers back.

Sometimes a client may be pulled away by a better value (not price). If so, it's possible that your client misunderstood your value proposition. This is not a time to cut prices, but you can win the client back if you truly are their best *value*.

Or perhaps the client's needs have changed. If this is the case and you no longer have a product or service that they need, don't try to win them back.

Maybe the client was bought away by a better price. Don't bother. You may win these kinds of clients back, but you'll lose them again as soon as somebody else offers a better price.

Science fiction writer Robert Heinlein put it this way: "Never try to teach a pig to sing; it wastes your time and it annoys the pig." Ω

Google in 1954?

One forward-thinking technologist all but described Google 40 years before it came into existence.

In reading Walter Isaacson's *The Innovators*, I learned about a paper that Joseph Carl Robnett Licklider, a psychologist and computer scientist, wrote in 1954. At that time, people carried large tape reels or stacks of cards to computers, presented the cards or tapes to the oracle who guarded the machine, and waited for a response.

Licklider saw the future and Isaacson quoted a section of the report that suggested what computers might someday be able to do: "Over the week-end it retrieved over 10,000 documents, scanned them all for sections rich in relevant material, analyzed all the rich sections into statements in a high-order predicate calculus, and entered the statements into the data base."

Isaacson said that Licklider realized that the approach he described would eventually be superseded. "'Certainly, a more sophisticated approach will be feasible before 1994,' he wrote. He was remarkably prescient. In 1994 the first text-crawling search engines, WebCrawler and Lycos, were developed for the Internet, and they were quickly followed by Excite, Infoseek, AltaVista, and Google." Ω

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